

Redsun Services (1971 HK)

Following a proven path

Redsun Services reported 1H20 revenue growth of 60.4% YoY. Adjusted net attributable profit (excluding listing expense) grew 64.3% YoY, while GFA under management reached approximately 18.7mn sq m, up 52.9% YoY. We consider Redsun Services to fit the fast-growing, mid-tier, regional leader archetype, and project earnings to grow at 2019-22E CAGR of 42%. Initiate BUY with TP of HK\$9.00.

- Fits the fast-growing, mid-tier, regional leader archetype.** Redsun Services fits the archetype of the emerging mid-tier property management company with a strong regional focus. 1H20 revenue and adj. net attributable profit (excluding listing expense) were RMB 323mn and RMB 37mn, up 60.4% and 64.3% YoY. GFA under management reached 18.7mn sq m, up 52.9% YoY.
- Rapid growth underpinned by strong regional presence of parent developer.** Redsun Services enjoys the backing of Redsun Properties Group, one of the leading developers in Jiangsu province that, along with its associates, contributed to 68.2% of total PM revenue and 69.1% of managed GFA in 1H20. Redsun Services' strong regional position also allows it to effectively acquire third-party projects, which we project to grow at 2019-22 CAGR of 49% and make up 40% of total managed GFA by 2022.
- Commercial property feature provides additional edge.** Redsun Services also features strongly in the management of commercial properties such as shopping malls, home improvement and furnishings malls, hotels and theme parks. Revenue from commercial property management reached RMB 87.7mn in 1H20, which accounted for 39% of PM revenue and 19% of managed GFA. We forecast revenue from commercial properties to exceed 50% of total PM revenue by 2022, resulting from management fee hikes and GFA expansion.
- Set TP at HK\$9.00; initiate with BUY.** We project earnings to grow at 2019-22E CAGR of 52%, which may be further boosted by potential M&As secured using proceeds from IPO listing. Using peers analysis we set target price at HK\$9.00, representing 23x FY21E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	349	503	753	1,115	1,507
YoY growth (%)	35.7	44.1	49.6	48.2	35.1
Net income (RMB mn)	33	59	62	146	208
EPS (RMB)	N/A	N/A	0.30	0.35	0.50
YoY growth (%)	N/A	N/A	N/A	17.1	42.7
Consensus EPS (RMB)	N/A	N/A	0.19	0.36	0.54
P/E (x)	N/A	N/A	24.6	21.0	14.7
P/B (x)	N/A	N/A	4.4	4.3	3.7
Yield (%)	N/A	N/A	0.7	1.7	2.4
ROE (%)	65.8	28.4	9.0	21.0	25.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$9.00
Up/Downside	+42.9%
Current Price	HK\$6.30

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,615
Avg 3 mths t/o (HK\$ mn)	N.A.
52w High/Low (HK\$)	7.72/4.15
Total Issued Shares (mn)	415

Source: Bloomberg

Shareholding Structure

Redsun Group	72.3%
Free float	27.7%

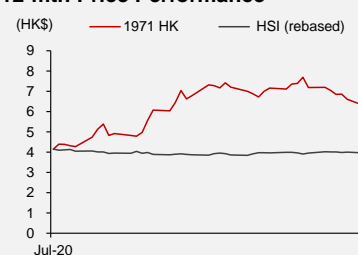
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.3%	-3.1%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



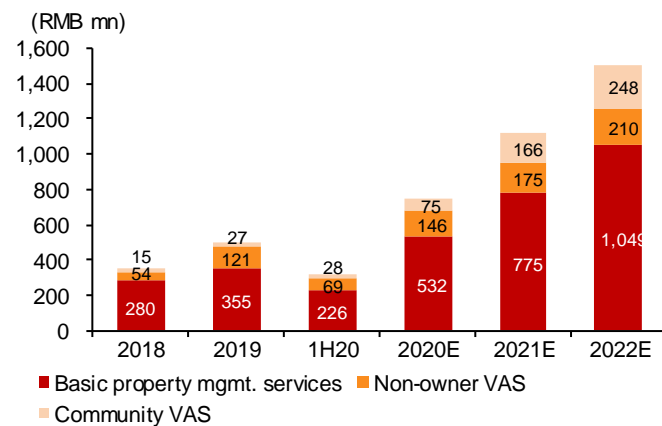
Source: Bloomberg

Auditor: Ernst & Young

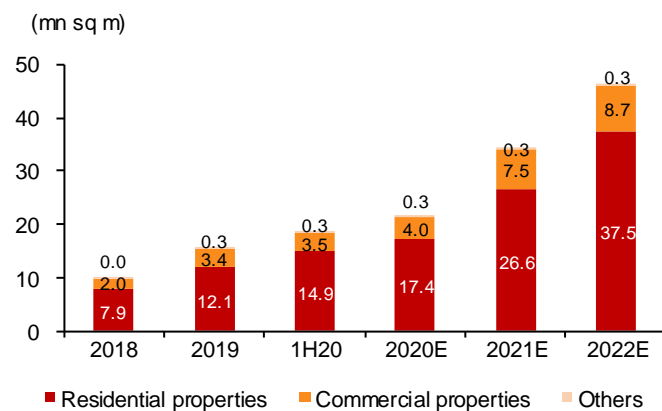
Figure 1: 2020 interim results

	1H20	1H19	YoY
Revenue	323	202	60.4%
Property management services	226	148	52.9%
Value-added services to non-property owners	69	46	50.1%
Community value-added services	28	8	261.4%
Cost of sales	(238)	(151)	58.0%
Gross profit	85	51	67.6%
Other income and gains	2	1	168.5%
Selling and distribution expenses	(1)	(0)	593.5%
Administrative expenses	(53)	(20)	165.5%
Other expenses	(0)	(0)	358.9%
Net impairment losses on financial assets	(1)	(1)	104.3%
EBIT	32	31	3.7%
Financial costs	(0)	(0)	-87.6%
PROFIT BEFORE TAX	32	31	4.2%
Income tax expenses	(9)	(8)	7.7%
PROFIT FOR THE PERIOD	23	23	3.0%
Non-controlling interests	(0)	-	n/a
Net profit attributable to shareholders	23	23	2.6%

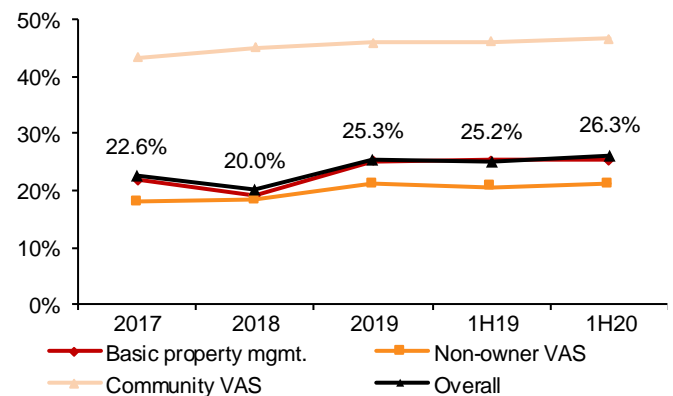
Source: Company data, CMBIS

Figure 2: Revenue

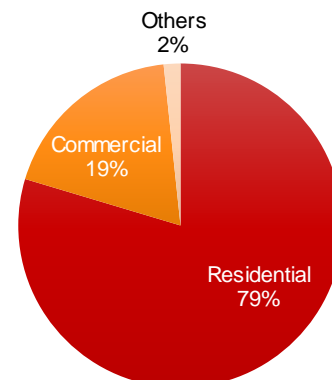
Source: Company data, CMBIS estimates

Figure 4: GFA under management

Source: Company data, CMBIS estimates

Figure 3: Gross profit margin

Source: Company data, CMBIS

Figure 5: GFA mix by property type in 1H20

Source: Company data, CMBIS

Figure 6: Peers valuation table

Company 1H20	Ticker	Share price	Mkt Cap	P/E			Net profit YoY		
		31/8/2020	(HK\$ bn)	20E	21E	22E	20E	21E	22E
Powerlong CM	9909 HK	24.5	15.2	50.4	34.8	24.9	56%	45%	40%
Times Neighborhood	9928 HK	11.1	10.9	44.9	26.2	17.7	133%	71%	48%
Aoyuan Healthy	3662 HK	7.2	5.2	19.4	14.0	10.9	47%	39%	28%
Kaisa Prosperity	2168 HK	29.0	4.5	17.2	12.3	8.8	40%	40%	39%
Binjiang Services	3316 HK	17.1	4.7	28.6	22.0	17.7	40%	30%	24%
CC New Life	9983 HK	10.7	13.3	34.3	23.5	17.5	54%	46%	35%
Average				32.5	22.2	16.2	62%	45%	36%

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	349	503	753	1,115	1,507
Property management	280	355	532	775	1,049
Value-added services to non-property owners	54	121	146	175	210
Community value-added	15	27	75	166	248
Cost of sales	(279)	(376)	(558)	(813)	(1,091)
Gross profit	70	127	195	303	416
Other income, net	1	3	4	5	6
Selling and marketing	(1)	(0)	(2)	(2)	(3)
Administrative expenses	(24)	(51)	(112)	(107)	(136)
Other expenses	(0)	(0)	(0)	(0)	(1)
Impairment	(0)	(0)	-	-	-
EBIT	45	78	85	198	283
Share from associates	-	-	-	-	-
Finance costs	(1)	(0)	-	-	-
Exceptional	0	0	-	-	-
Pre-tax Profit	44	78	85	198	283
Income tax	(11)	(21)	(21)	(50)	(71)
PROFIT FOR THE YEAR	33	57	64	149	212
Non-controlling interest	-	2	(1)	(3)	(4)
Net profit to shareholders	33	59	62	146	208

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	11	37	43	68	71
PP&E	8	9	14	27	29
Goodwill	-	12	12	12	12
Others	3	15	18	29	30
Current assets	253	503	984	1,068	1,304
Trade receivables	8	26	56	149	87
Due from related parties	167	263	23	23	23
Cash and cash equivalents	38	179	869	860	1,158
Others	40	35	35	35	35
Total Asset	264	540	1,028	1,135	1,375
Current liabilities	214	320	324	426	536
Trade and other payables, deposits received and accruals	81	172	215	316	427
Due to related companies	74	38	-	-	-
Interest-bearing loans	5	-	-	-	-
Others	54	110	110	110	110
Non-current liabilities	0	2	2	2	2
Deferred tax liabilities	0	2	2	2	2
Total liabilities	214	322	327	428	539
Equity to shareholders	50	208	691	694	818
Non-controlling interests	-	9	11	14	18
Total Equity	50	217	701	707	836

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	44	78	85	198	283
D&A	2	3	1	2	2
Change in working capital	(11)	34	12	10	172
Others	(8)	(4)	(21)	(50)	(71)
Net cash from operating	27	111	77	160	386
FA Capex & Inv, net	(5)	(4)	(3)	(3)	(3)
Associated companies	(69)	(55)	(23)	(115)	(13)
Others	(31)	31	-	-	-
Net cash from investing	(105)	(28)	(26)	(118)	(16)
Equity raised	-	99	460	-	-
Change of debts	5	(5)	-	-	-
Others	41	(35)	179	(51)	(73)
Net cash from financing	46	58	639	(51)	(73)
Net change in cash	(32)	141	690	(9)	298
Cash at the beginning of the year	70	38	179	869	860
Cash at the end of the year	38	179	869	860	1,158

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management	80.2	70.5	70.7	69.5	69.6
Value-added services to non-property owners	15.5	24.1	19.3	15.7	13.9
Community value-added	4.3	5.3	10.0	14.8	16.5
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	20.0	25.3	25.9	27.1	27.6
EBIT margin	13.0	15.6	11.3	17.8	18.8
Net margin	9.5	11.7	8.3	13.1	13.8
Effective tax rate	25.8	27.1	25.0	25.0	25.0
Growth (%)					
Revenue	35.7	44.1	49.6	48.2	35.1
Gross profit	20.2	82.7	52.9	55.4	37.5
EBIT	13.7	73.4	7.9	134.2	42.7
Net profit	14.9	79.0	5.4	134.2	42.7
Balance sheet ratios					
Current ratio (x)	1.2	1.6	3.0	2.5	2.4
Receivable turnover days	9	19	19	19	19
Payables turnover days	20	42	42	42	42
Inventory turnover days	0.05	0.02	0.02	0.02	0.02
Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	65.8	28.4	9.0	21.0	25.4
ROA	12.5	10.6	6.2	13.1	15.4
Per share					
EPS (RMB)	N/A	N/A	0.30	0.35	0.50
DPS (RMB)	N/A	N/A	0.05	0.12	0.18
BVPS (RMB)	N/A	N/A	1.69	1.70	2.02

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